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People and Performance: Challenges for the Future Public Service— the Report from the Wye River Conference

What are the key challenges for the public sector at present, and what will the future public service look like if it is to meet these challenges? These questions were put to public-sector leaders at a conference at the Wye River Plantation in June 1999. The leaders agreed on aspects of a broad vision for the future and the urgent need for a detailed debate on the transition questions that arose.

Giving Priority to People and Performance: A Federal Public Service for the Future

From June 27–30, 1999, 25 leading public-sector practitioners and scholars met at the Wye River Plantation in Maryland to discuss the state of the federal merit system and to outline a vision of a system responsive to changes in the labor market and in the delivery of public services.¹ At this meeting there was broad and strong consensus on four major points:

- The people resources of government—its human capital—must be valued more highly and developed more carefully than current practice allows;
- Performance—high performance—must become a way of life and a critical part of the culture of the federal service;
- Strong leadership from both political and career executives must come center stage; and
- Partnerships with unions, with other levels of government, and with other sectors must be front-loaded and focus on mutual goals and performance objectives.

The many ways in which the challenge was perceived and described—a “war” for talent; a palette of choice and opportunity; a mandatory focus on human capital; new competition in a unified and hypercompetitive market; and a necessary reexamination of leadership needs for new challenges—grew from a common foundation. If government

leaders and the public are serious about demanding better performance from government, they must also be serious about better ideas for the public service. Those ideas include knowing that human capital is an investment to be carefully tended, that performance is deterred by systems that are too complicated and often contradictory, and that responsibility for effective and far-sighted leadership resides with political leaders as well as with other members of the public service. Ensuring that the federal service of the future has the flexibility, the vigor, and the focus to be effective is a formidable task. It involves new analyses of some of the most closely held tenets of federal service: merit, the statutory bases of the current system, and the ideas of risk, reward, and accountability in the public service. Without attention to the task, effective government is at risk.

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How to best navigate the move from old to new, while retaining core commitment to the enduring value of effective public service, is not completely clear. The charting requires extensive discussion, collaboration, and consensus. The leaders at Wye emphasized different priorities in charting the transition and had different ideas about how to achieve the common goals. However, they shared the unequivocal view that the debate must be engaged now, that it must be raised above an incremental discussion of reform to a vision for the future. The purpose of this paper is to engage that debate, beginning a process of dialogue between the actors concerned with the issues and future of the public sector.

Changing Markets: New Challenges

The ever-changing global economy, dramatic technological change, and increased expectations about government performance demand a new attention to the complex set of public-service skills and capacity. The foundation of the public service—its human capital—must be strong, capable, and committed. The presence of this talent cannot be assumed, however. The reality of the marketplace is that there is a strong competition for talent, and the public sector must compete with the private sector for human resources with increasingly complex skills. A recent report from McKinsey and Co. placed the issue in stark terms: “What we found should be a call to arms for corporate America. Companies are about to be engaged in a war for senior executive talent that will remain a defining characteristic of their competitive landscape for decades to come” (Chambers et al. 1999, 44).

Competition with other sectors is not new for the public service, nor is it, on its face, problematic. The challenge and value of a public-service career remain high. Nonetheless, the government now competes essentially in a single market against a better prepared and more flexible private sector for skills that both must acquire. A leading appointee recently noted: “I would argue that 70 percent of any job will rest with the quality of the people on your team and making sure that the right people are in the right positions to move forward successfully.”²

New technology, new ways of organizing work, new means of delivering public services, and an increasing reliance on a temporary workforce have redefined the nature of public work. The structure and systems for acquiring and developing human capital have not kept pace. In Paul Osterman’s terms, “We are in a paradoxical economy ... a transition period, from old ways in which the labor market operated—old structures, old systems, old sets of rules—towards a something we don’t yet know The key to policy is to create a new set of rules, not in the spirit of trying to recreate the old era, but to address the prob-

lems of the new era, without undermining the positive elements the new era has brought.”

The problem is made more urgent by an aging workforce and a looming retirement problem at all levels of the federal service. In the next three to seven years, many federal agencies will confront the strong possibility of a significant exodus in both management and executive ranks. Just over 70 percent of the federal government’s career senior executives will become eligible for retirement by the end of fiscal year 2005,³ although the actual retirement level is likely to be closer to 45 percent. This suggests an increase in the annual Senior Executive Service (SES) retirement rate to 6.4 percent in 1999–2005, from 5.5 percent in 1992–98.⁴ The potential retirement challenge varies by agency and by occupational specialty within the SES. For instance, the retirement eligibility rates for the Department of Veterans Affairs as a whole, and for its health system administrators, are particularly high. Other critical agencies, such as the Social Security Administration, are likely to have large retirement exits at all levels of the organization.

The challenge of maintaining the right skill mix is made more complex for both public and private sectors by the multidimensional nature of the changes in workforce skill and capacity demand. A recent report from the American Management Association, for example, noted that “As recently as 1995, such factors as restructuring, reengineering, and automation spurred job cuts much more often than they boosted new hiring, but the patterns have changed dramatically. Today, as many companies create new jobs due to restructuring as eliminate jobs for that reason, and a higher percentage cite automation as a rationale for hiring than firing” (1998, 4). The director of U.S. Office of Personnel Management, Janice Lachance, adds another dimension: “Work processes are increasingly driven by what employees know—the lines between job and learning are blurred.”

The federal government is behind this curve, with many agencies just now beginning to hire after a decade of downsizing. The need to acquire human resources with cutting-edge skills is an increasing concern. The National Academy of Public Administration’s Center for Human Resource Management reports that “The flow of new, high quality hires in federal departments and agencies has been dramatically reduced, while the age of the workforce and the number of professional and administrative workers has risen Bringing new ‘seed corn’ into federal agencies is vital” (1999, 19). Does the federal government have the ability to find the right people and to hire them when they are needed? The report concluded: “The continued and dramatic escalation of technological and scientific advances, the resulting changes in how work is done, the new demands on workers and the depressing effects on workforce skills of a decade of downsizing, buyouts, hir-

ing freezes, and low unemployment have elevated the issues of acquiring and developing entry level workers for the government's professional and administrative occupations to near crisis proportion." (1999, 1).

Is the Federal Government Prepared?

Merit at the Millennium

For well over 100 years, the federal public service has been guided by merit principles. Indeed, the federal system is consistently described as a merit system. In many ways, however, the idea of a single merit system is misleading. Multiple-employment systems are already in place: the Foreign Service and the Federal Aviation Administration do not operate under the Title 5 system. The Internal Revenue Service Restructuring Act gave that agency new management and executive flexibilities that the Commissioner declared "absolutely essential" in revitalizing the IRS. The most common flexibilities adopted by reinvention laboratories throughout the federal government are related to human resource management. Some federal agencies operate only a part of their human resource management activities under the provisions of Title 5—retirement, for example. Overall, less than half of federal government employees are under competitive service rules.⁵

A recent study identified eight major ways to hire for professional and administrative positions at entry or early level; government-wide examinations (ACWA) were only one of the eight and accounted for less than 1 percent of the hires in the period 1991–1998 (NAPA 1999, 3). Of the new federal hires in April 1999, 29 percent were recruited via the competitive service; 71 percent were recruited through excepted and SES hiring practices.⁶ Of entry-level professional and administrative hires in the period 1991–1998, the Outstanding Scholar program accounted for 8 percent; OPM non-ACWA hiring 11 percent; agency delegated examining 9 percent; noncompetitive direct hires 23 percent; and agency internal hires 43 percent (NAPA 1999). The sum of these changes is that merit is complex, multidimensional, and very segmented. Leaders and managers must sort through a bewildering set of constraints and choices. "The challenge, and the paradox is to give us the tools to compete in today's and tomorrow's hyper-competitive labor market, without compromising on the principles of merit that have served us so well in the past," observed Ronald Sanders, Chief Human Resources Officer, IRS.

The merit system was created to provide an expert and efficient public service and to provide protection from the excesses and vagaries of politics. The system that evolved, however, is a narrowly described, rigidly defined classification and compensation system. The classification and compensation systems are both the defining characteristics and

the dinosaurs of public employment, epitomizing a focus on process and procedures, not excellence in human capital resource acquisition and not on performance. Nor do they keep key people: Almost one-third of new entrants to professional and administrative positions in 1991–1993 had left government service by 1998 (NAPA 1999).

Despite being ill-suited for the tasks of recruiting and managing talent, however, these systems define the current human resources environment. The very strong commitment to tenure that they represent underpins many of the burdensome processes and procedures that detract from performance and from a consistent focus on quality and excellence.

The problems are exacerbated by nonstrategic and non-performance-driven granting of flexibility. Provisions of the Civil Service Reform Act of 1978 and a plethora of smaller reforms adopted since its passage allow for a variety of flexibilities and exclusions to be granted; these are rule-based, not goal- or performance-based flexibilities, though. There are at least two disconcerting implications of such nonstrategic diffusion of human capital management flexibilities. The first is that, as a Brookings Institution study observed, rule-based flexibility encourages conformance, not performance (Kettl et al. 1996, 25). The second is that merit principles, though of continuing significance to an effective public service, are obscured in the clutter.

Human Capital Is an Investment, Not Just a Cost

Together, the weaknesses present in the current system create an urgent need for change in federal human resource management systems—not at the fringes, which has too often been the case in the past, but at the very core. Without change, the civil service can continue to muddle through, using short-term remedies for long-term problems. But the oft-taken ad hoc approach in the federal government has created a number of unintended problems in the past. The unplanned outsourcing of service delivery and support functions and a haphazard approach to improving performance are examples. The cumulative result of such decisions has been to diminish capacity to manage performance at a time when it sorely needs redefinition and revitalization.

Referring to members of the public service as "human capital" may seem crass. Public service has long been viewed as having special qualities and as presenting notable opportunities for challenge and contribution. Members of the public service are also, however, government's most important resource. Failure to understand and value that resource will inevitably be linked to lack of capacity and performance. A top official at the General Accounting

Office notes, for example, that “while the concept of human capital is not new, it has taken on a new urgency as organizations face increasingly complex challenges, often with fewer resources. For knowledge-based organizations particularly, people are a critical and valuable asset that must be better understood, invested in, and strategically directed toward the achievement of identified organizational results.” Emphasizing the investment that human capital represents, while also more efficiently managing its performance and cost, may well be the biggest challenge the public service will face in the next decade.

The need for improved training and development is one aspect of this challenge. The American Management Association (1998, 6), summarizing the need for focusing on training and development of human capital, even in times of cuts, linked increased training to greatly increased productivity, quality, and shareholder value. This emphasis, however, is conspicuously absent in the federal government. The average expenditure on training reported for 10 agencies studied in the Government Performance Project in 1998 is less than 1.5 percent of their budget.⁷ For most federal agencies, training and development funds are the first to go if budgets are reduced. In the new workforce environment, this short-term solution has serious long-term costs.

Further, the practice of focusing on costs rather than on benefits, in the long-term human capital equation limits the opportunity to consider the return on investment. This investment should be a core part of a careful human capital management strategy. Members of the federal service do represent a critical resource. But there is also a need to structure a workplace in which the investment relationship is two-way. Employees receive appropriate rewards, incentives, and development opportunities; they give back necessary expertise, solid capacity, and higher performance. The interactive responsibility of this commitment and exchange is frequently missing in the current environment. If the aim is to place greater value on human capital management and to make performance the driver in the system, mutual responsibility must be created.

Obviously, compensation and patterns of reward will be fundamental in this regard. Detailed discussion of the specific changes was not possible at the Wye Conference; there was agreement, however, that these topics must be included in the human capital and performance agenda. The issues raised at the Wye River Conference encompassed pay and performance flexibilities, pay competition among federal agencies, the role of labor/management collaboration in compensation and performance rewards, the ability to clearly establish the costs and benefits of human capital, and differential valuation of work and mission. All of these issues form the core of the longer-term debate in this area.

Leaders Are the Glue

A decade ago, the National Commission on the Public Service—the Volcker Commission—reported that “A strong executive leadership system is essential to the effective management of government ... the two components of that system, political appointees and career executives must work together in a partnership; neither alone can run the executive branch” (1989, 167). That basic reality has not changed. Indeed, many of the same issues that spurred the Volcker analysis are still around: debates about numbers and placement of political appointees; tenure in position; the match between both political and career skills and talent, and the demands of program and policy that they address; and the extent to which accountability to Congress and the President can be assured, appear to be timeless.

At the same time, there are new dimensions to the leadership problem. The broad issues related to human capital management generally are no less salient to leaders. The acquisition, development, and retention of critical leadership talent is central to performance. The availability of leadership skills for the public sector may be even scarcer than it is for the larger workforce. Again, current policy exacerbates the problem. The buy-outs and early retirement options that accompanied the downsizing activities of the past few years had a significant impact on the career leadership pool available to the government. Many persons who would have been at the peaks of their careers chose instead to exit government. Retaining key leadership in the face of such attractive retirement options is another problem that government has created for itself. This too, needs to be fixed.

Finally, the responsibility of leaders and top managers for the performance of their employees and their organizations must be recognized. Leaders are part of an organization’s culture, its reward structure, and as such define the clarity of goals and objectives. If leaders abdicate this responsibility, the performance effort is moot. Leaders should be rewarded for high employee and organizational performance, and the differential between those who take this responsibility seriously and those who do not should be clear.

Partners Will Be Important

As the work of government has become more complex, the ways in which it is carried out have changed. Contracting out has caused government services to be delivered by other sectors, the nature of the relationship between labor and management has become more collaborative in some agencies, and acquiring critical talent has placed the public and private sectors on essentially the same field. Relationships with, and reliance on, other levels of government are very important.

In most cases, however, there has not been adequate attention to front-loading common goals, expectations, or means of evaluating the effectiveness of the partnership. Furthermore, accountability for quality and effectiveness of service has become less clear. These issues have been the basis for partnership agreements with unions in some agencies, and with a very limited set of other levels of government, but more activity in this area, as well as expansion to other potential partners will be a factor in future capacity and performance.

A Vision Quest: A Public System that Reflects Market and Merit

To compete, the federal service must marshal its resources to attract and reward talented people, to create dynamic agencies, to encourage initiative and strong performance, and to focus on accountability to elected officials and citizens. This will include consideration of the contemporary meaning and definition of merit, full utilization of existing but untapped flexibilities in current legislation, and consideration of new legislation to support improved human capital management and performance. The following principles will be the foundation:

Valuing People

- Federal employees are not only a cost, but a critical investment, to be carefully developed and managed.

- Performance, not protection and security, will be a central value.
- Employee development, growth, and contribution will be central to compensation strategies.
- Promotion and reward will be clearly linked to performance.
- Flexibilities will continue to be important, but must be strategic and performance driven.
- The system will proceed from the fundamental position that public work is valuable, challenging, and a contribution to effective government.

Performance Is the Driver

- Performance rewards and incentives must actually contribute to performance.
- Flexible and differential compensation and reward strategies will reward individual, group, and organizational performance.
- Core merit values and effective performance incentives will be aligned.
- Elected and appointed officials will recognize their critical responsibility to carefully frame the mission and to clearly define the basis for performance assessment.
- Multiple employment and reward systems will exist, but will be bound by common values and a clear strategy for performance attainment.

Table 1: Shifting from a Traditional Public-Sector System to a System for the 21st Century

Traditional Public Sector System	Public Service System for the 21st Century
1. Single system in theory; in reality, multiple systems not developed strategically	1. Recognize multiple systems, be strategic about system development, define and inculcate core values
2. Merit definition that had the outcome of protecting people and equated fairness as sameness	2. Merit definition that has the outcome of encouraging better performance and allows differentiation between different talent
3. Emphasis on process and rules	3. Emphasis on performance and results
4. Hiring/promotion of talent based on technical expertise	4. Hire, nurture, and promote talent to the right places
5. Treating personnel as a cost	5. Treating human resources as an asset and an investment
6. Job for life/lifelong commitment	6. Inners and outers who share core values
7. Protection justifies tenure	7. Employee performance and employer need justifies retention
8. Performance appraisal based on individual activities	8. Performance appraisal based on demonstrated individual contribution to organizational goals
9. Labor-management relationship based on conflicting goals, antagonistic relationship, and ex post disputes and arbitration on individual cases	9. Labor-management partnership based on mutual goals of successful organization and employee satisfaction, ex ante involvement in work design
10. Central agency that fulfilled the personnel function for agencies	10. Central agency that enables agencies, especially managers, to fulfill the personnel function for themselves

Leaders are the Glue

- Acquiring necessary leadership talent in both the political and career spheres will be given priority by elected officials and other leaders of the public service.
- Acquisition of necessary talent will be a clearly recognized task for leaders.
- Leaders will be recognized and rewarded for their attention to all levels of performance within their organization.
- Accountability for performance will be central to both political and career leadership.

Strategic and Front-loaded Partnerships

- The labor-management partnership will be based on up-front collaboration and on mutual goals for performance.
- Discretion and differential reward, not standardized compensation, will be a base operating assumption.
- Leadership obligations for both labor and management will be recognized.
- Accountability and responsibility for doing public work and delivering public services will be more clearly specified.
- Partnerships with other sectors and other levels of government will carefully consider performance goals and measures.

Translating today's public-sector issues suggests the vision for the public sector tomorrow. Table 1 illustrates the direction that the public sector needs to go to meet future needs. In some ways, the evolution from the traditional public-sector system has already begun, primarily through the work of the Office of Personnel Management and the National Partnership for Reinventing Government. However, an agreed upon path to the future of the public service has not yet been clearly mapped. As a consequence, serious transition issues around the question of "How do we get there?" remain.

Conclusion

Viewing federal employees as a human capital investment shifts how government perceives its workers—as assets rather than as just necessary costs to be controlled. The costs, of course, remain, but the investment must be clear. To maximize this investment, agencies need a full range of tools and resources to actively acquire and develop—through recruitment, training, and reward strategies—excellent talent and leadership. These tools should include, *at a minimum*, portable, individualized total compensation and benefit packages which recognize the increasingly in-and-out nature of career development and differing needs of individual employees. Human capital is an investment in talent, in capacity, and in problem-solving skills. Employees must accept a new set of responsibilities as well. If they are to be viewed and rewarded as

an investment, they must commit to providing a measurable return for that investment.

For performance to be an important driver for government, the system must obtain and retain talented people by emphasizing public service and investing in its employees. The new system for managing talent must create clear and carefully aligned performance incentives for individual employees, for teams, for managers, and for leadership. In turn, these incentives must be tied clearly to agency mission.

Other nations—Canada, Australia, New Zealand, and Great Britain—have carefully considered the constraints created by old ideas of merit. They have moved toward simpler systems, more clearly directed public organizations, better ideas about accountability and performance, and communication with citizens about reasonable expectations of public work and public workers. National leaders have argued that performance and accountability can go hand-in-hand only if core values and organizational purpose are clear, if managers and leaders have the discretion they need and the authority to use it, if they are held accountable for doing so, and if there is agreement about the purpose and outcomes of the new system among elected officials, other political leaders, the public service, and the public. The fragmentation of public-employment systems in the past and the continuing need for increased strategic flexibility elevates the importance of maintaining core unity across the public sector. The values and principles that underpin such core unity range from broad public values (a respect for basic democratic institutions, responsiveness, accountability, and a desire to engage in public service) to practical organizational values (an emphasis on problem solving, not problem creating; continuous learning and change; and much better communication about merit and performance).

The challenges presented to the public sector on the eve of the twenty-first century are considerable, but not insurmountable. A new emphasis on performance and on the value of human resources allows employees to better understand how and why their work is important and allows elected officials and the public to better understand what public organizations do and how they do it. Diverse human capital management systems enable agency flexibility when necessary—ensuring that excellent talent is in place when needed. The presence of core values will promote a systemwide commitment to performance-based merit principles. The transition to such a system will undoubtedly require enormous political will. But the long-recognized problems demand a revolution for the twenty-first century. The message is clear: Change is here; more is on the way. To those who would engage this debate, the unmistakable message from Wye is: "Start your engines!"

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Notes

1. Representatives came from Department of Agriculture; Department of Commerce; Department of Defense; General Accounting Office; Bureau of Labor Statistics; Office of Management and Budget; Office of Personnel Management; Department of Transportation; Internal Revenue Service; State of Wisconsin; Civil Service Subcommittee, U.S. House of Representatives; American Management Association; National Academy of Public Administration; International Business Machines; PricewaterhouseCoopers; University of Delaware; American University; University of Georgia; MIT Sloan School of Management; The Alan K. Campbell Public Affairs Institute; Maxwell School of Citizenship and Public Affairs.
2. Robert L. Mallett, Deputy Secretary, U.S. Department of Commerce.
3. Another 19 percent will be eligible for early retirement. However, early retirement can be taken only by these SES members if their agencies seek and obtain authority from the Office of Personnel Management to offer such retirements and the agencies include SES members among those offered the early-retirement option by their agencies' management.
4. We are grateful to Nancy Kingsbury and Michael Brostek of the General Accounting Office for providing this analysis.
5. Of the 2,768,817 employees in May 1999, 1,382,145 are competitive service employees (49.92 percent) and 1,368,672 are excepted and senior executive service (50.08 percent) (U.S. Office of Personnel Management 1999, 38).
6. Of the 40,841 new hires made in April 1999, 11,782 (28.85 percent) were through the competitive service and 29,059 (71.15 percent) were through excepted and SES (U.S. Office of Personnel Management, 1999, 71).
7. Based on survey results from the Environmental Protection Agency, Food and Drug Administration, Federal Aviation Administration, Occupational Safety and Health Administration, Patent and Trademark Office, Social Security Agency, Health Care Financing Authority, Immigration and Naturalization Service, Internal Revenue Service, Federal Emergency Management Agency, and the Federal Housing Administration. The Government Performance Project is an activity of the Alan K. Campbell Public Affairs Institute.

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